

**PREPARED REBUTTAL TESTIMONY OF  
LAWRENCE H. HAYNES  
ON BEHALF OF  
CENTRAL ILLINOIS LIGHT COMPANY  
DOCKET NOS. 00-0815 and 00-0816**

ILLINOIS  
COMMERCE COMMISSION  
APR 11 / 06 PM '01  
CHIEF CLERK'S OFFICE

1    **Q:    Please state your name and business address.**

2    A:    My name is Lawrence H. Haynes, and my business address is 300 Liberty Street,  
3           Peoria, Illinois 61602.

4    **Q:    Are you the same Lawrence H. Haynes who submitted direct testimony in**  
5           **these dockets?**

6    A:    Yes, I am.

7    **Q:    What is the purpose of your rebuttal testimony in this proceeding?**

8    A:    The purpose of my rebuttal testimony is to address issues identified by CILCO  
9           and the Commission Staff which must be resolved before Staff recommends  
10          approval of the Tolling Agreement between CILCO and AES Medina

11   **Q:    What are the issues CILCO and Staff have identified which must be resolved**  
12          **before Staff recommends approval of the Tolling Agreement between**  
13          **CILCO and AES Medina?**

14   A:    The issues are:

- 15           1.       Staff objects to CILCO's proposed role as the gas customer, supplier and  
16                   transporter relative to the Tolling Agreement.
- 17           2.       CILCO should have the option, not the obligation, to buy power from  
18                   Medina if Cat does not purchase steam from CILCO or if the plant is  
19                   modified to produce power without producing steam.

- 20           3.     An independent third party should determine fair market value of Medina  
21                   if CILCO wishes to purchase the plant.
- 22           4.     There are some accounting issues which are being resolved by Tom Smith  
23                   of Staff and Glenn Davidson of CILCO.
- 24           5.     If CILCO is not the gas customer at Medina, then the gas customer should  
25                   pay for installation of the gas service pipe in accordance with CILCO's  
26                   tariffs.
- 27           6.     Staff recommends that (1) CILCO be required to attain Commission  
28                   authorization before terminating the Tolling Agreement and (2) CILCO  
29                   should have the option to acquire ownership in Medina upon terminating  
30                   the Tolling Agreement unless Caterpillar first terminates the Service  
31                   Agreement and pays CILCO a termination payment at least equal to the  
32                   amount CILCO would owe if it terminated the Tolling Agreement.
- 33           7.     CILCO should be required to make capacity payments similar to those  
34                   made to Medina to non-affiliated generators who locate in CILCO's  
35                   control area. The facilities must displace existing customer load and thus  
36                   free up CILCO's existing coal-fired generation.

37   **Q:     Have CILCO and Staff discussed CILCO's recommended treatment of gas**  
38           **costs in relation to the Fuel Adjustment Clause (FAC) and Purchased Gas**  
39           **Adjustment (PGA)?**

40   **A:**    Yes. Staff concurs with CILCO's proposed treatment of gas costs in relation to  
41           the Fuel Adjustment Clause (FAC) and Purchased Gas Adjustment (PGA). Under  
42           CILCO's proposal, the cost of gas burned to produce electricity, steam heat

service and chilled water service for Caterpillar will be excluded from the FAC and PGA. Only the cost of electricity generated by Medina that is sold to CILCO customers other than Caterpillar will be included in the FAC.

**Q: Staff has indicated that it will not recommend approval of the Tolling Agreement as long as CILCO is the gas customer, gas supplier and gas transporter for Medina. How does CILCO propose to address the first issue which must be resolved?**

**A:** CILCO and Medina are willing to amend the Tolling Agreement provisions regarding gas supply. Under the new provisions, Medina will be the gas customer of record under CILCO's T-7 tariff. Medina will purchase and therefore take title to natural gas at CILCO's city gate. Medina will then bill CILCO for the cost of purchasing and transporting the gas required to provide energy, steam heat service and chilled water service to CILCO for resale to Caterpillar. This change clearly separates the gas for Medina from CILCO's system supply gas and the interstate pipeline transportation contracts connected with system supply gas. It resolves concerns that CILCO is providing a supply acquisition service for the facility that it does not provide to other T-7 customers. It clearly puts Medina on footing similar to that of other T-7 customers. This arrangement also keeps intact the spirit of the Tolling Agreement in terms of making CILCO, and ultimately Caterpillar, responsible for the cost of gas burned at Medina.

**Q: How will Medina show gas charges on its bill to CILCO?**

**A:** Medina will allocate the gas volumes among steam, electricity and chilled water and show the gas charge associated with each commodity separately. The

allocation will be made in accordance with the formula outlined in CILCO's response to Data Request No. TQS 10. That data request has been amended to reflect agreement on accounting issues reached by Mr. Thomas Q. Smith, accountant for Staff, and Mr. Glenn L. Davidson, accountant for CILCO, and is attached as Exhibit No. 3.1.

**Q: Are you aware that there is currently a proceeding that may result in gas affiliate rules and regulations that apply to Illinois gas utilities?**

A: Yes, CILCO is aware there is an ongoing gas affiliate proceeding and CILCO will comply with the affiliate rules as approved in any final order, provided CILCO has not requested and the Commission has not granted a waiver from such rules.

**Q: Staff has expressed concern that under terms of the Tolling Agreement CILCO would be forced to purchase uneconomic electric energy from Medina in the event that Caterpillar no longer purchases steam heat from CILCO or in the event that the plant is modified to allow production of electricity without the production of steam heat. How does CILCO propose to resolve the second issue?**

A: In its current configuration, Medina cannot produce electricity without producing steam heat for sale to Caterpillar. However, CILCO and Medina agree to amend the Tolling Agreement so that if Medina is modified to allow the production of electricity not tied to the sale of steam heat to Caterpillar, CILCO would be *required* to purchase only Medina's electric market output that is linked to steam heat production. CILCO would have the *option* to purchase any additional Medina electric market output. CILCO recognizes that purchases of electricity

89 not linked to steam heat production from Medina must be justified during FAC  
90 reconciliation proceedings; CILCO further understands that such justification will  
91 not be required for purchases of electricity that are linked to steam heat  
92 production.

93 **Q: Staff has recommended that CILCO and Medina adopt the process outlined**  
94 **in the contract between CILCO and Cat of obtaining a third party**  
95 **independent assessment of fair market value in the event CILCO seeks to**  
96 **purchase Medina. What is CILCO's response to the third issue?**

97 A: CILCO and Medina are willing to amend the Tolling Agreement to incorporate  
98 the fair market value assessment procedure contained in the contract between  
99 CILCO and Cat.

100 **Q: Have CILCO and Staff resolved the accounting issues discussed as issue**  
101 **four?**

102 A: Yes. The attached CILCO Exhibit No. 3.2 reflects the agreements reached  
103 between Mr. Thomas Q. Smith, accountant for Staff, and Mr. Glenn L. Davidson,  
104 accountant for CILCO.

105 **Q: Staff has indicated that it will not recommend approval of the Tolling**  
106 **Agreement unless the gas "customer" at the Medina site pays the cost of**  
107 **running the service line for Medina. Who will pay the cost of the service line**  
108 **identified as the fifth issue?**

109 A: Medina will pay the cost of running the service line in accordance with CILCO's  
110 General Terms and Conditions.

111 **Q: Staff has recommended that (1) CILCO be required to attain Commission**  
112 **authorization before terminating the Tolling Agreement and (2) CILCO**  
113 **should have the option to acquire ownership in Medina upon terminating the**  
114 **Tolling Agreement unless Caterpillar first terminates the Service Agreement**  
115 **and pays CILCO a termination payment at least equal to the amount CILCO**  
116 **would owe if it terminated the Tolling Agreement. How does CILCO**  
117 **propose to resolve this sixth concern?**

118 **A:** It is CILCO's understanding that Staff is concerned that CILCO's affiliates may  
119 require CILCO to terminate the Tolling Agreement when such termination is in  
120 the best interest of the affiliates but not in the best interest of CILCO or its  
121 customers. To resolve this concern, CILCO and Medina are willing to amend the  
122 Tolling Agreement to limit CILCO's ability to terminate the Tolling Agreement.  
123 Under the new provisions, CILCO could terminate the Tolling Agreement only if  
124 (1) Medina defaults in accordance with provisions of Section 16.1.1 of the Tolling  
125 Agreement or (2) Caterpillar terminates the Service Agreement between itself and  
126 CILCO. CILCO has presented this concept to Staff, and Staff has agreed it  
127 resolves the concern.

128 **Q: With regard to the seventh and final issue, Staff recommends that CILCO be**  
129 **required to make capacity payments similar to those made to Medina to non-**  
130 **affiliated generators who locate in CILCO's control area to reflect the**  
131 **capacity benefits to CILCO of shed load. Does CILCO agree to make such**  
132 **capacity payments to non-affiliated generators who locate in CILCO's**  
133 **control area?**

134 A: CILCO agrees to make electric capacity payments comparable to those made to  
135 Medina if the new generation provides capacity benefits to CILCO. For CILCO  
136 to make such capacity payments to another generator, the following conditions  
137 must be met: (1) CILCO must need the generating capacity to avoid purchasing  
138 power to meet customer requirements within its service territory. "Customer  
139 requirements" in this instance shall be the estimated CILCO native load for the  
140 duration of the capacity contract plus MAIN reserve requirements. (2) The  
141 generating capacity must displace continuous customer load served by CILCO at  
142 the time the new capacity comes on line. (3) The capacity payment shall reflect  
143 only the load shed by the specific CILCO customer. (4) CILCO shall not be  
144 required to pay more than 60% of the combined capacity payment the generator  
145 receives from CILCO and from the specific customer for whom the generation is  
146 designed. (5) CILCO shall not be required to make capacity payments which,  
147 when added to the capacity payments paid by the customer of that generation, are  
148 higher on a per-kilowatt-year basis than the market price at the time the capacity  
149 contract is executed. (6) The capacity payment shall reflect the market price for  
150 the CILCO generation source that the new generation displaces.

151 Q: **Does this complete your prepared rebuttal testimony?**

152 A: Yes, it does.

**ICC DOCKET NO. 00-0815**  
**Response to Staff Data Request TQS 1.01 – TQS 1.17**

**TQS 1. Referring to Journal Entry 2, will any fuel (e.g. gas cost recorded in Journal Entry 1) cost be allocated to non-utility steam or chilled water services? Provide detail, including the formula for allocating such fuel cost.**

**Response:** Yes. All fuel is allocated between Accounts 555 and 421 as described below. CILCO will then credit Account 234 for the portion of the fuel cost that is used to provide steam heat service and chilled water service. The FAC will receive a credit for purchased power costs from Medina associated with sales to Caterpillar and off-system sales.

To allocate the fuel, the number of kilowatt hours produced will be determined by subtracting the electricity used to run the electric centrifugal chillers (the chiller plant is submetered) from plant production. The amount of steam produced will be determined by subtracting the steam required to run the steam absorption chillers (the chiller plant is submetered) from plant production. The fuel then will be allocated according to the following calculations:

kWh produced X 6,800 Btu/kWh = Fuel used to generate  
electricity in Btu  
Fuel used to generate electricity / 1,000,000 BTU = Fuel used in  
generate electricity in mmBtu (MCF)  
Steam produced in thousands of pounds (klb) X 1.361 mmBtu =  
Fuel used to generate steam in mmBtu (MCF)  
The remaining fuel will be allocated to chilled water production

For purposes of this example, the potential effect of any Heat Rate Bonus or Heat Rate Payment per Section 7.2 of the Tolling Agreement has not been included. The actual Heat Rate Bonus/Payment will be calculated monthly as described in Exhibit F of the Tolling Agreement. For purposes of this example, the following assumptions were made:

6,800 Btu/kWh is the plant's electric heat rate  
1.361 mmBtu is the plant's steam heat rate  
1 thousand cubic feet (MCF) = 1 million Btu (mmBtu)



Here is a numerical example of the calculation:

Total gas burned = 263,348 MCF

kWh = 21,556,000 kWh total – 724,000 kWh used for chillers =  
20,832,000 kWh  
20,832,000 kWh X 6,800 Btu/kWh = 141,657,600,000 Btu  
141,657,600,000 Btu / 1,000,000 = 141,658 MCF

Steam = 99,006 klb – 42,216 klb used for chillers = 56,790 klb  
56,790 klb X 1.361 = 77,291 MCF

263,348 - (141,658+77,291) = 44,399 MCF used in chiller plant

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**Central Illinois Light Company**  
**Pro Forma Journal Entries**  
**Confidential**

<u>JE</u> <u>No.</u>	<u>Acct</u> <u>No.</u>		<u>Debit</u>	<u>Credit</u>
1. Record transportation service to Medina				
	146	Accounts Receivable - Associated Companies	\$35,000	
	489.3	Transportation Revenue		\$35,000
2. Record expenses paid to AES Medina Valley Cogen, LLC pursuant to the Tolling Agreement for electricity.				
	555	Purchased Power *	\$1,711,510	
	234	Accounts Payable - Associated Companies		\$1,711,510
* - includes natural gas costs				
3. Record expenses paid to AES Medina Valley Cogen, LLC pursuant to the Tolling Agreement for steam and chilled water.				
	421	Nonoperating Expenses - Steam Heat Service *	\$29,675	
	421	Nonoperating Expenses - Chilled Water Service *	\$365,573	
	234	Accounts Payable - Associated Companies		\$395,248
* - includes natural gas costs				
4. Record sales of electricity, steam heat service and chilled water service to Caterpillar Inc. pursuant to the Service Agreement and electricity sales to customers other than Caterpillar.				
	142	Accounts Receivable	\$1,686,222	
	442	Commercial and Industrial Sales - Caterpillar		\$1,524,008
	421	Nonoperating Expenses - Steam Heat Service		\$31,161
	421	Nonoperating Expenses - Chilled Water Service		\$101,053
	440 - 448	Operating Revenues		\$30,000

**NOTE:** FAC will receive a credit for purchased power cost from Medina associated with sales to Caterpillar and off-system sales.

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<u>JE</u> <u>No.</u>	<u>Acct</u> <u>No.</u>		<u>Debit</u>	<u>Credit</u>
5. Record revenue from operating the Caterpillar-owned diesel generators.				
	142	Accounts Receivable	\$137,500	
	440 - 448	Operating Revenues		\$137,500
6. Record expense of operating the Caterpillar-owned diesel generators.				
	501	Fuel	\$66,000	
	151	Fuel Inventory		\$66,000
		To record fuel burned		
	151	Fuel Inventory	\$82,500	
	232	Accounts Payable		\$82,500
		To record fuel expense.		
	548 - 549	Misc. Other Power Generation Expenses+D4	\$10,000	
	232	Accounts Payable		\$10,000
		To record operation and maintenance expenses of the diesel generators.		